THE ROYAL COMMISSION
ON SOCIAL POLICY

TE KOMIHANA A
TE KARAUNA MO NGA
AHUATANGA-A-IWI

# WEALTH AND INCOME IN NEW ZEALAND

DISCUSSION BOOKLET NO. 4

$6
N2
Econ

# Contents

# Wealth and Income in New Zealand

## Introduction

Social policy in its broadest sense is about the opportunities and resources available to individuals, households and larger groups in society. In forming social policy, questions arise such as:

(i) Are resources and opportunities fairly distributed amongst the population?

(ii) If not, what are the causes of any unequal distribution?

(iii) How does society define *fairness* or *unfairness*?

(iv) If a government does choose to intervene, which are the most efficient means for doing so? Through taxation, or benefit payments? Or through providing *goods* such as health or education, either directly through its own agencies, or by *contracting out* to the private sector?

To meet its Terms of Reference, the Royal Commission needs to inquire into these issues.

Specifically, the Royal Commission is directed to have regard to the following *standards of a fair society* (among others):

1. *"Maintenance of a standard of living sufficient to ensure that everybody can participate in and have a sense of belonging to a community:*
2. *Genuine opportunity for all people, of whatever age, race, gender, social and economic position or abilities to develop their own potential:*
3. *A fair distribution of the wealth and resources of the nation including access to the resources which contribute to social well-being."*

Money income and wealth are a large part (though not all) of the resources needed to achieve the standards of a fair society. This booklet discusses income and wealth. It begins by defining them, then states what we know about how they are spread over the population, why they are distributed this way and how different amounts of income and wealth affect people's ability to do the things they want to do. It describes the ways in which the government seeks to redistribute income and wealth. Throughout this discussion a number of points will be raised that you might like to consider if you are thinking about making a submission to the Commission.

This subject is too large to cover completely in this paper. Some New Zealand references covering further aspects are listed at the end of the paper.

In many cases it is difficult to say what the current problems are because information is lacking. Throughout this document there will be an attempt to point out the limitations on our knowledge.

# What Do We Mean By Wealth and Income?

Whenever people compare their income to others they often find that this is complicated by the many things that contribute to people's income and their wealth. For example, those in paid employment may have access to a range of *perks,* others may have inherited assets from relatives. Some jobs are better paid because of hazardous or *unsocial* working conditions. This may make it difficult to say whether one person is better off than another. Consequently, it is necessary to decide what is meant by income and what is meant by wealth. Broadly speaking, *income* may be thought of as a flow of money over a period of time while *wealth* represents a collection of assets. So income is a rate of payment (usually dollars per year) while wealth is an amount of money (or of assets that are worth money). However, for many purposes, more precise definitions are needed. This section gives some definitions.

## Different Concepts of Income

There are four different income concepts which are particularly useful in discussing the part government plays in redistributing income. These are:

**Market Income**
**Total Income**
**Disposable Income**
**Final Income**

(i) Market Income

This is the income earned in the market-place from one's labour, or from the returns on one's assets, such as interest, rent, profits, capital gains. Market income may also include non-monetary items, for example fringe benefits such as a car supplied with the job, low-income loans, free or low-rent accommodation, employer-subsidised pension or health insurance schemes and so on.

(ii) Total Income

Obtained by adding to a person's market income the income from benefits such as national superannuation, unemployment, family benefit, and so on. (In a period of, say, a year, people may be both in the labour force and on a benefit). Such benefits are also called "transfer" income because the government is transferring money from one set of people to another through the tax and benefit systems.

(iii) Disposable Income

This is income after deducting taxes paid from Total Income. In other words *After-Tax Income.*

It is important to distinguish between income measured before tax, and income after tax is deducted. It is the latter which gives people their spending power.

Later on in this paper different types of taxes and their effect on income will be discussed. The shape of the *after tax* spread of income across the population is obviously of interest in any such discussion.

(iv) Final Income

The government transfers income not just by making *monetary payments* but also by providing services such as health, education and housing. Adding the value of such transfer payments and services to disposable income gives *final income.* For reasons discussed later, the distribution and the value of such services are very difficult to measure.

## Issues in Measuring Income

The first concerns the time period over which income is earned.

People usually measure income by the amount earned in a year. But sometimes it is more important to consider income received over a shorter period of time, because income may fluctuate considerably from week to week or month to month. There may be extra costs in shifting income between good periods and bad periods. Seasonal workers and some self-employed people or business proprietors are in this category.

Another important concept is Lifetime Income, the total income earned over a lifetime. Obviously it depends on the length of one's life. The more important point, however, is that income does vary at different stages of one's life.

Table 1, from the report of the 1972 Royal Commission on Social Welfare, brings this out well. It also brings out the point that it is not income in itself that is important so much as income in relation to expected or required expenditure. There are many different life styles, each of which will have its own pattern of income and expenditure. Thus those persons who leave paid employment to care for dependants will have a different lifetime income profile from those who do not.

Because changes in income occur at different stages of the life-cycle, the age structure of the population will itself affect the distribution of income. Such changes also blur such apparently precise principles as *horizontal equity* — people on equal incomes should be treated equally — and *vertical equity* — those on higher incomes should pay at least the same or a larger portion of their income in taxes as those on lower incomes. It follows that any government trying to redistribute income through taxes and transfers should not ignore the different commitments people have at different stages of their life-cycles.

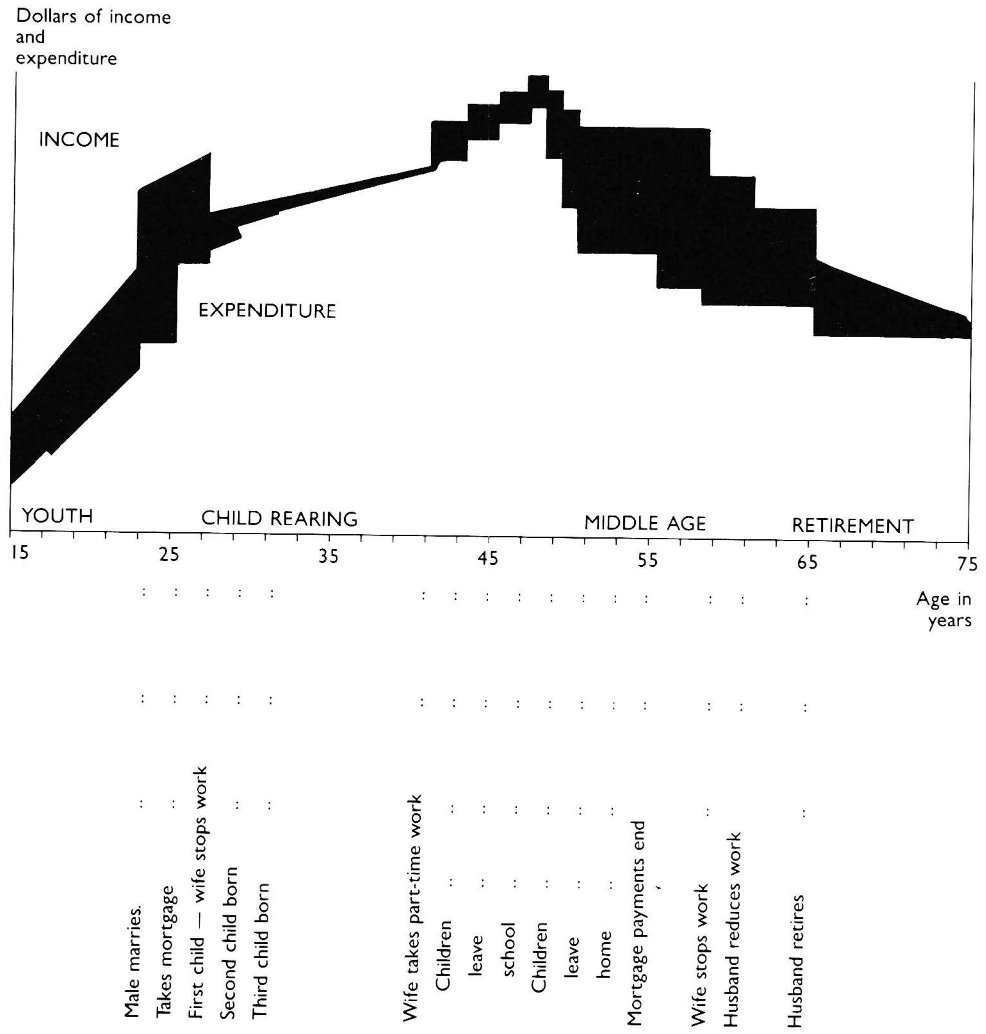
## The Income Unit

While most incomes are received by individuals, they are usually shared within larger groups, for example, within a family or extended family. For this reason it is desirable to collect information about the distribution of income among these groups. One approach is to measure household incomes. However, people living in a household do not necessarily share the income of the household, e.g. three people living together in a flat. In addition, incomes that are shared are not necessarily shared in an equal or *fair* way. Consequently in examining any graph that shows the way that income is shared it is important to ask how many people are dependent on each income.

## Value of Income

Each person buys his or her own individual *basket* of goods, within available income. Price changes may affect different income groups (or ethnic groups) differently depending on how these groups spend their income. The effects of price changes will also vary according to region. The value of money earned is discussed later in this document in the section on standards of living.

Table 1: Income and Expenditure Over a Family Life Cycle



## Different Concepts of Wealth

From an every-day point of view personal wealth refers to the ownership of valuable assets or, more broadly, "command over resources". When we attempt to define and measure wealth, problems arise because it may be difficult to say what is meant by ownership, or to value the assets. Having said this, there are many items that are clearly part of personal wealth.

The most common forms of this type of wealth are:

1 Property and Real Estate

This covers ownership of housing and/or land. For many people it will be their main source of wealth.

2 Shares and Stocks

As well as the money made by selling shares that have increased in price, these may yield income in the form of dividend payments.

3 Farms and Private Businesses

These may have a value as a "going concern" as distinct from the value of the assets of the business, while at the same time providing the owner with a profit from their operation.

4 Gold, Silver, Fine Art, Antiques etc.

These do not provide an income as such but they have the potential to increase in value.

5 Assurance Policies

These include life insurance. These policies may provide income in the form of lump sum payments, or regular income payments from a given date in the future.

6 Financial Assets, Mortgages, Debentures

These include cash holdings, savings deposits, etc., and may provide income in the form of interest payments.

7 Personal Effects

These include cars, clothing and household items. These assets tend to lose their value over time.

The right to National Superannuation could be regarded as a part of personal wealth. It is obviously valuable since it will entitle a person to a considerable sum of money but it is difficult to put a value on it because it is impossible to say how much it will be worth over future years. We do not know what the level of the payment will be or how long the beneficiary will receive it. In addition, the right to National Superannuation is not owned in the way we normally think of ownership because the beneficiary cannot sell or give this right to anybody else.

Here are some further examples of assets that some people argue should be included in a definition of wealth:

(i) Communal assets

Individuals have access to state-owned assets such as schools, hospitals and roads. These are clearly valuable (if they did not exist New Zealanders would have to pay for them from their own income). But these rights cannot be sold to anybody else and people do not benefit from them equally.

(ii) Human capital

The value to a person of education and training is called human capital. In many ways this is the most important element in personal wealth because it is so directly related to the ability to earn income.

Many of the problems that the Royal Commission will be considering will be related to whether people are able to develop their human capital (have they access to training programs of various types) and to make full use of it (can they get the jobs their skills enable them to do).

Which definition of wealth is appropriate depends upon the topic under discussion. In this paper we are discussing the distribution of wealth in a general sense so, where possible, even those assets whose ownership cannot be sold or given away will be included.

## Issues in Measuring Wealth

Wealth may be held in some form of joint ownership (e.g., a trust of some kind or a jointly owned family home). This complicates investigations into the distribution of wealth. And while most of the available information concerns individual wealth, some people would argue that the concept of individuals having sole rights over most assets is a cultural one: different cultures have different attitudes as to what assets are appropriate for community or communal ownership as distinct from individual ownership.

Again, some may not use certain community resources because they do not have access to the information required. Or they may be unable to do so simply because they do not have the resources (time, transport and some necessary skills) to make use of the opportunity. Some research suggests that resources such as libraries and national parks are primarily used by middle income people.

Another aspect of the use of wealth might be described as *access to influence.* Resources are not equally available to all, thus government policies decide the way that public money is spent. To be able to influence the way that such money is allocated it is necessary to have a certain level of knowledge of *how the system works.* Otherwise it may prove impossible to influence this process and so to share fully in our community assets.

When, in 1981, New Zealanders were asked whether they thought that they could influence decision-making about 20% said that they could.

This issue could be the subject of a separate paper but it may be useful for you to think about your or your group's access to information or access to influence when you are making your submission.

Earlier it was mentioned that access to community or communal assets could be regarded as part of a person's wealth. But how is this to be valued? While it is pleasant to have the *right* to use a library, or a national park, in an important sense it is only part of your personal wealth if you are *able* to use it.

This section has introduced a few important ideas about what constitutes income and what constitutes wealth. The way these definitions can be used will be more apparent in the next section when the availability of data is considered.

# Distribution of Wealth and Income in New Zealand

From defining income and wealth, the next step is to measure their spread, or distribution, amongst the population. We deal first with income, then with wealth where the problems are greater. Use is made of material from the references given at the end of this booklet to show New Zealand's income and wealth distribution.

## Describing an Income Distribution

1 Average Income

In discussing the spread of income a common starting point is *average* income. An average, however, tells nothing about the spread of income about the average. For example if income were transferred from the poor to the rich, the average would remain the same.

Another problem is that statisticians have developed more than one type of average. Most of us are accustomed to the *statistical mean* obtained in the usual way by dividing the total by the number of items making up that total. For incomes, this can give a poor picture of what most people earn. For example, in some New Zealand income distributions over two-thirds of people earn less than the *mean* income. The reason is that most tables of income by size show a long *upper tail.* That is, there are a number of individuals or households who earn much more than the average. They drag up the mean income above what most people receive.

One way to get round this, and to obtain a figure closer to most incomes, is to use a different *average,* the median. The median is simply that income level for which fifty percent earn less, and fifty percent earn more.

In this paper, where measures of average income are used, the median is used more than the mean.

(ii) Income Spread

A large number of statistical measures for the *spread* about the average have been developed, some quite complex. The approach taken in this paper is to break the population (individuals or households) into groups of equal size from the richest to the

poorest, and to consider the proportion of overall income earned by each group, and how this changes when a different measure of income is used. Where the groups are each 10 percent of the population they are called *deciles,* and if 20 percent *quintiles.* Some of the charts and tables in this section, taken from a recent New Zealand Planning Council paper, use deciles. The Department of Statistics figures on Real Disposable Incomes use quintiles.

## Income Distribution in New Zealand

### Personal Incomes

The first graph (Figure 1) shows two kinds of income, market income and total income. It covers the adult population (individuals aged 15 and over for whom the family benefit was not paid).

As could be expected, the impact of transfer payments makes incomes more equally shared. Also the number of people who earn zero income, or a negative income, is reduced, from 10 to 2.4 percent. In the high income groups there is little difference.

From the Planning Council paper, the median annual income as at June 1985 was $9,000 for market incomes, and $11,000 for total incomes.

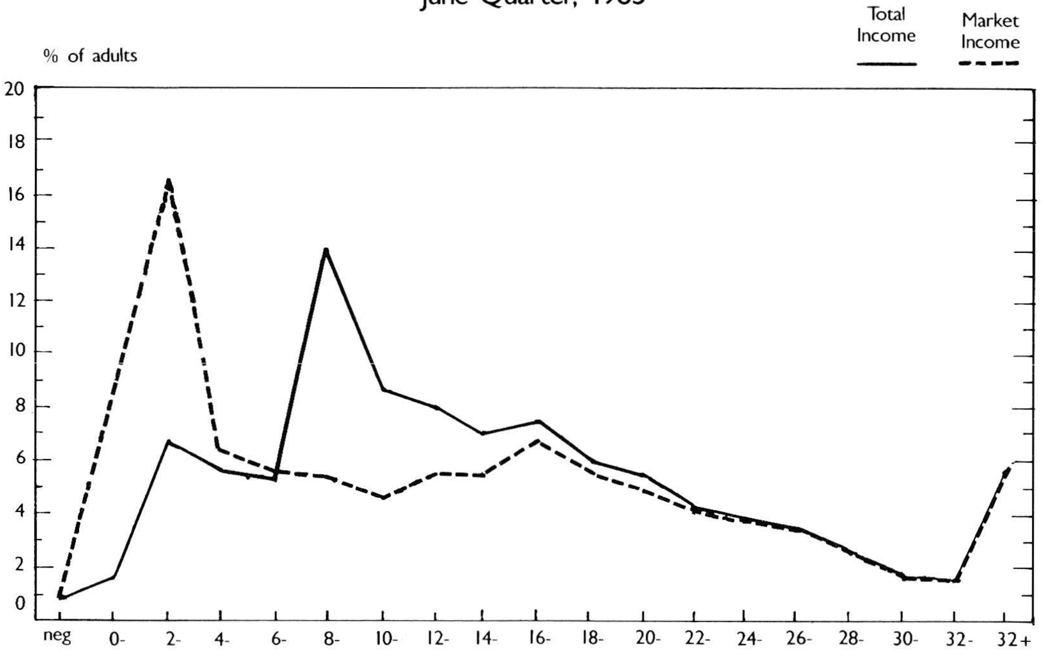
### Household Incomes

Figure 1 shows the effect of benefit payments on the distribution of incomes received by individuals. Similar figures, or tables, have been drawn up for household incomes by the Planning Council. For this households have been divided into ten groups or deciles, each containing 10 percent of households, ordered from lowest to highest income on the basis of their *market* income. (Other income definitions could also have been used to order the households.)

Table 2 shows the income range for each of these deciles. Table 3 then shows the proportion each decile has, first of *total* income, then of *disposable* income. That is, the effect of benefit payments on the spread of household income is first measured, and then the further effect of deducting personal income taxes.

It can be seen that the income spread between deciles becomes more equal for *total* income than for *market* income, and more evenly spread again for *disposable* income than for *total* income. It looks as though benefit payments do more to equalise household incomes than do taxes. Taxes do have a considerable impact, however, in reducing the share of the highest income group.

Figure 1: Income Distribution of All Adults
June Quarter, 1985




Income Ranges $(000) per annum
Source: Household Expenditure and Income Survey, 1985/86

## Table 2: HOUSEHOLD MARKET INCOME RANGE, JUNE QUARTER 1985

| Deciles of Households | Range of Household Annual Market Income |
|---|---|
| 1 bottom | Under $337 |
| 2 | $337 — $4,210 |
| 3 | $337 — $4,210 |
| 4 | $12,621 — $18,060 |
| 5 | $18,061 — $22,750 |
| 6 | $22,751 — $27,110 |
| 7 | $27,111 — $32,000 |
| 8 | $32,001 — $38,650 |
| 9 | $38,651 — $49,300 |
| 10 top | Over $49,300 |

Source: Household Expenditure and Income Survey 1985/86

## Table 3: SUMMARY OF HOUSEHOLD INCOME DATA, JUNE QUARTER 1985

| Average per Household Group | Range of Annual Household Market Income in Deciles* Low 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | High 9 | 10 | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Percentage distribution of market income | -0.6 | 0.8 | 3.4 | 8.3 | 10.1 | 12.0 | 14.3 | 17.6 | 27.9 | 100.0 | |
| Percentage distribtuion of total income | 2.5 | 4.0 | 5.1 | 6.8 | 8.0 | 9.5 | 11.0 | 13.0 | 15.7 | 24.6 | 100.0 |
| Percentage distribution of disposable income | 2.8 | 4.6 | 5.9 | 7.4 | 8.5 | 9.7 | 11.3 | 12.9 | 15.3 | 21.8 | 100.0 |

Source: Household Expenditure and Income Survey 1985/86

## Table 4: PROFILE OF HOUSEHOLDS

| | Distribution of Households by Market Income Range | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Household Type | Bottom 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | Top 10 | ALL |
| One person (super) | 39.2 | 34.3 | 18.0 | 5.2 | 2.0 | * | * | * | * | * | 10.4% |
| Two adults (super) | 16.9 | 37.2 | 25.6 | 13.7 | 8.4 | 7.6 | 5.8 | 6.1 | 3.8 | 3.5 | 12.9 |
| One adult only | 9.6 | 5.8 | 10.8 | 22.7 | 11.3 | 7.9 | 5.8 | * | * | * | 7.8 |
| Two adults only | 4.7 | 3.5 | 6.4 | 8.7 | 18.9 | 19.8 | 27.6 | 31.7 | 34.9 | 20.1 | 17.6 |
| 3 or more adults | * | * | 2.6 | 4.4 | 3.5 | 4.1 | 10.5 | 9.3 | 13.7 | 33.7 | 8.5 |
| Two adults with one child** | 4.1 | 1.7 | 7.6 | 9.0 | 15.4 | 13.7 | 10.8 | 11.3 | 6.7 | 5.5 | 8.6 |
| Two adults two children | 3.5 | 2.6 | 8.7 | 11.0 | 18.0 | 21.0 | 18.0 | 17.4 | 16.3 | 11.6 | 12.8 |
| Two adults, three or more children | 4.1 | 3.8 | 9.6 | 14.0 | 13.1 | 18.7 | 10.8 | 12.5 | 6.7 | 5.5 | 9.9 |
| Three or more adults plus children | * | * | 3.8 | 5.5 | 6.4 | 4.4 | 9.0 | 9.3 | 15.7 | 17.4 | 7.3 |
| One adult plus children | 15.1 | 9.3 | 7.0 | 5.8 | 2.9 | * | * | * | * | * | 4.3 |
| | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Average number children per h.h. | .5 | .3 | .9 | .9 | 1.3 | 1.3 | 1.4 | 1.1 | 1.0 | 1.2 | 1.0 |
| Average number persons in h.h. | 2.0 | 1.9 | 2.5 | 2.8 | 3.1 | 3.3 | 3.2 | 3.3 | 3.2 | 3.6 | 2.9 |
| Average number adults in h.h. | 1.4 | 1.5 | 1.7 | 1.8 | 1.9 | 2.0 | 2.2 | 2.2 | 2.3 | 2.8 | 2.0 |
| % of all persons who are children | 30 | 21.1 | 32 | 35.7 | 35.5 | 39.4 | 31.3 | 30.3 | 28.1 | 22.2 | 31.0 |

*insufficient observations
**Columns will not always sum vertically to 100% due to missing observations.

Source: Household Expenditure and Income Survey 1985/86.

Any further investigation of household incomes needs to consider the differing household types: for instance the number of children, of adults with and without dependants, of national superannuitants. These reflect the *life-cycle* stage the household is passing through. Table 4, again from the Planning Council paper, provides this information. It shows the importance of different household types in each income group.

The striking feature of this table is the concentration of superannuitants and solo parent families in the lowest income groups. The two have of course quite different needs. The lesson to be taken is that it can be quite misleading to make assessments, or policies, based on the way income is spread over all households (or all individuals).

## Income from Work

This part of the paper covers the trends in income from employment.

The rise in the number of women involved in the paid work force has resulted in a change in the composition of the work force. In order to look at the change in average wage rates over time it is necessary to use figures for a group that has not changed greatly in its composition. For this reason comparisons with male incomes have been made. Comments about wages paid to female workers will be made in the next section.

### Employee Earnings

Employee earnings are the largest component of incomes, 76% of market income being earned from salaries and wages.

The distribution of income from employment changes over time in two main ways. One relates to the composition of the work force (the proportion of the total number of working people who are bakers, miners, white collar workers etc.). The other concerns different changes in the rates of pay in the different occupations.

Brian Easton has examined trends of this type in his *Income Distribution in New Zealand.* This covered data mainly from the 1960s and 1970s.

In terms of wage rates:

1 Male wage relativities were roughly constant for blue collar occupations.

2 Remuneration for salaried managers and male clerical workers was probably falling relative to the mean. Easton suggests that *managers* might be being replaced by *professionals* and that new technologies, such as computers, and women, might be replacing higher paid clerical workers.

3 Professional earnings (doctors, lawyers etc) were rising relative to others. This was a trend among both the self-employed and employed professionals.

It is possible some of these trends have changed since the Easton study was done.

## Women

The distribution of market incomes for women shows a higher proportion of women than men receiving smaller incomes. This is one way of measuring the earnings gap between men and women. The factors that contribute to the earnings gap are complicated. The most recently available summary of these issues is *Equal Pay Study, Phase One Report* prepared by P. Hyman and A. Clark of Urban Research Associates. The comments made in this section are largely drawn from this document.

In their summary the factors contributing to the pay gap were listed as:

(i) Occupational segregation

50% of women workers are concentrated in six occupations (clerical, sales, teaching, medical, typing and book-keeping) and it is found that occupations with a large proportion of female workers tend to have low pay rates.

(ii) Seniority

Even within areas of work which have a large proportion of female workers it is found that there are very few women in senior positions.

(iii) Work experience and training

The range of formal training women receive through universities and polytechs is largely confined to traditional female occupations. This leads to employment in low paid jobs.

(iv) Time out of the labour force

Time out of the labour force can disrupt the development of a career. Well paid part-time work is relatively rare. it is known that women have a higher rate of leaving jobs than men. While this suggests that they are in jobs that are insecure, not much is known about the precise reasons for the high job turnover. While it is hard to measure, there is also a sugggestion that women have difficulty finding a job which enables them to work the number of hours that they want to.

The other point to be made is that these points (i) — (iv) are often closely related to each other, so that any one person may find that more than one of these factors works against them.

It is difficult to say whether some of these problems will lessen when women currently beginning their careers start to work their way through the current structures. The figures available suggest that things are changing slowly.

There are some other points that need to be made:

(i) A conceptual difficulty in measuring the value of the work that women do is that housework and child rearing are not paid and so the value of this work does not appear anywhere in New Zealand's system of national accounts or other income measures. An analysis limited to monetary income will present a misleading picture of women's economic role, because if this work had to be paid for at a commercial rate substantially greater income would be required by the household.

(ii) A significant number of women do not receive any income. This means it is very important to know about the way that income is distributed within a household and how many women have access to money as of right, rather than through having to make arrangements with the income earners.

This is a particularly important issue when women's entitlements to benefits are being considered. There are some benefits that a woman is not entitled to in her own right if she is married. For example, it is assumed that if a man is paid the unemployment benefit at the married rate then the woman to whom he is married receives some of this, but there is obviously no guarantee that this is the case.

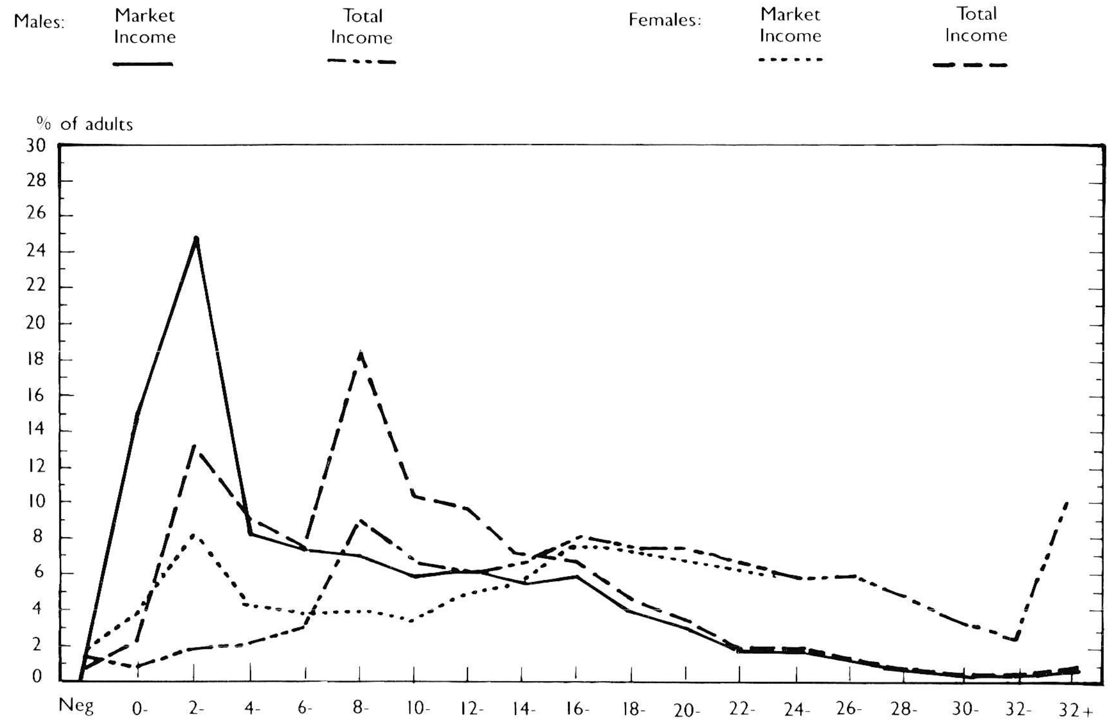
(iii) The figures for income demonstrate a considerable difference between the sexes. The median total income (for 1985-1986) for all adults was in the range \$10,000 — \$12,000. For males the median was considerably higher, in the \$16,000 — \$18,000 range while the female median income was in the \$6,000 — \$8,000 range. Almost 11% of males but only 1% of females received over \$32,000 in total income in the 1985/86 year. (Figure 2).

(iv) There are also limitations in the information concerning women's participation in the work force.

What is easiest to measure is the number of women who are in the labour force at one point in time. It is useful to know this but for some purposes it is more important to try to find out how many women have been working over the course of a year or how many women will have worked for how long over the course of their lifetimes.

(iv) Finally various considerations affecting women's opportunity to participate in the paid work-force are covered in another discussion paper prepared by the Commission called *Work, its Nature, Role and Value.*

Figure 2: Income Distribution of Males and Females
June Quarter 1985



## Maori

A range of issues affecting the Maori people is summarised in a discussion paper called *The Treaty of Waitangi and Social Policy.*

Discussion in this area is also hampered by the limitations of the available information. There have been suggestions that information is collected (in censuses and surveys) by a method that is inappropriate to the way that Maori people think of their ownership of goods.

Aside from this issue there are the problems in recording ethnicity in a consistent way. As different methods have been tried at different dates, it is always difficult to say to what extent observed changes could have been caused by these changes in the way that people are classified.

All the information, however, indicates that average incomes for Maori people are significantly less than those for non-Maori. Thus in 1981 the median Maori male income was $9,148 compared with $10,978 for non-Maori. The median income for Maori women was $3,472 compared with $4,337 for non-Maori women.

In making comparisons the Maori income distribution needs to be adjusted to account for age-structure (there are a greater proportion of young Maori people). This means that on average there are a larger number of people dependent on incomes earned by Maori people.

## Measuring Wealth

The most common way of measuring wealth is through estate duties data. At the time of death the Inland Revenue assesses the value of the deceased's assets in order to determine what death duties have to be paid. This method has problems, It assumes that the dead in any age group can be looked upon as a random sample of those still living. There is no way of knowing how valid this assumption is. In addition action may have been taken to avoid duty. Also it does not give adequate information about estates which are not large enough to require examination by Inland Revenue.

### TABLE 5: THE DISTRIBUTION OF PERSONAL WEALTH AMONG THE ADULT POPULATION 1956-1985

| Percentage of total adult population | Percentage of estimated total wealth | | |
|---|---|---|---|
| | 1956(a) | 1966(b) | 1985(c) |
| Top 1% | 25.4% | 18.0% | 15.6% |
| Top 2.5% | 40.7% | 30.5% | 27.4% |
| Top 5% | 48.2% | 44.5% | 37.9% |
| Top 10% | 63.9% | 59.2% | 56.6% |
| Top 50% | 98.6% | 99.8% | 100.0% |
| Bottom 50% | 1.4% | .2% | .0% |

Sources: (a) (b) Easton (1985);
(c) Department of Statistics Estate Duty Returns 1985.

Results from using this method are given in table 5. It is fair to say that wealth is concentrated in relatively fewer hands than large incomes are.

In 1985 the wealthiest 1% of people owned about 15.4% of private wealth; the wealthiest 10% of New Zealanders owned 57% of the total wealth.

The top 20% have experienced a decline (from 79.5% in 1956 to 75.6% in 1985) while the share of the bottom 50% has declined from 1.4% in 1956 to zero in 1985.

These figures have to be interpreted carefully. It is possible that the apparent decrease in wealth among the rich is occurring because they are transferring wealth. The value of zero for the bottom 50 percent on the distribution also raises serious questions about whether this method provides sensible estimates. If human capital were counted as part of wealth a very different distribution could result.

We are left with the conclusion that it would be desirable to have more detailed information about the distribution of wealth.

## Sources of Wealth

There are two main ways of acquiring wealth:

(i) Accumulation of earnings

People tend to accumulate wealth over their lifetimes so the human life cycle needs to be taken into account when considering the distribution of wealth

(ii) Inheritance and gifts

These are more generally called wealth transfers. Later in this booklet we will discuss the role they play in the wealth of New Zealand.

On the source of wealth, Easton's calculations suggested that over half of average individual wealth arose from wealth transfers (i.e., gifts and inheritances). However he reached the conclusion that in New Zealand inheritance helps to spread wealth rather than concentrate it. This is primarily due to the practice of dividing estates among the family rather than giving all the estate to one child.

The pattern of *inter-vivos* (between the living) transfers is harder to pin down (and the taxes on them are relatively easy to avoid or minimise). They may involve parents helping sons and daughters to establish a home, start in business, complete an education, or just have holidays. In some cases very substantial assets are transferred within the family.

On a more abstract level, it could be argued that the tendency of educated parents to encourage their children into higher education involves a transfer of human capital which generates high income and savings and that this too is a form of inheritance which affects the wealth distribution.

# What Causes Inequality?

What causes the inequalities in the distribution of income and wealth? If there existed an agreed answer, society would be better placed to decide what is a *fair* income and wealth distribution.

Unfortunately there is no agreed answer. Some answers which have been put forward, and what they imply in the way of remedies, are as follows:

(i) Luck, or ill-luck

This includes, as well as the normal ups and downs of working life, the more serious hazards of life such as ill-health, unemployment, bankruptcy, bereavement, and marriage breakdown.

How far should society go in insuring people against life hazards?

(ii) Talent and effort

Differences in income reflect the different skills and talents people possess and/or the effort they apply. Their talents may be acquired by inheritance, or by training.

To what extent should those more successful through talent or effort help those less so? Does it depend on whether differences in income are thought to be mainly determined by a person's own inherited skills, combined with their effort? What if environment, or training, is thought more important?

(iii) Unequal opportunity

There may be, for example, unequal access to education and training or to job opportunities. Women and minority racial groups may be particularly affected. Where does responsibility lie? What efforts should be made to provide equal access, to eliminate discrimination, and to reduce barriers to the free functioning of the market-place?

(iv) Life-cycle effects

This has already been discussed. While life-cycle effects are not the fundamental cause of inequality, it is important to realise that income, and wealth, do vary over the life-cycle. To ignore this is to risk reaching the wrong conclusions, and policies. But what are the implications?

(v) Exploitation

This is the economic exploitation of one class, or group, by another.

It is clearly far from easy to decide what is a *fair* distribution. And even if agreement could be reached, there would still be argument about how far society should go in correcting an existing *unfair* distribution. The reason for this is that the total income and wealth of society are not fixed, but are changing over time. Some people believe that attempts to redistribute income to less well-off people have serious "disincentive" effects. Those taxed more heavily would produce or invest less. This would lead to total income growing more slowly, and poorer people being worse off in the long run. That is, they might get a bigger share, but of a smaller cake.

Other people disagree with this view, saying that there is not necessarily a conflict between *equity* (fairness) and *efficiency* (growth).

Some of these points are discussed briefly later in this paper in the sections concerned with transfer payments and goods and services. There is further discussion in the Commission's discussion booklet on *Fairness, Equality and Efficiency.*

## Determining a Standard of Living

A frequent reason for looking at incomes is to assess whether or not the income that is received by a person, household or family group is adequate for needs. In other words is their *standard of living* adequate.

This section discusses what is meant by the standard of living. The different needs of different types of households are important here.

The discussion then leads on briefly to the extent of poverty in New Zealand.

## Standards of Living

There are many things that contribute to a person's standard of living. For the purpose of measuring standard of living the simplest way is to consider the goods and services that a person is able to buy. The general approach adopted in many studies is to look at the kinds of goods that are purchased and examine how the pattern of buying changes with available income, household size, ethnicity, age and other such variables. However, people who spend money in the same ways may have a different standard of health or different quality of housing. All these factors contribute to a standard of living.

In the most general sense it is necessary to know how much satisfaction people get from different types of activities to be able to measure their standard of living. It is not possible, however, to measure in any satisfactory way something as subjective as *satisfaction*. Of necessity the amount people spend is used as a guide to their standard of living. The Household Income and Expenditure Survey shows how New Zealanders spend their money.

Different cultural groups living in different regions will have different material aspirations and living patterns and therefore spend their money in different ways. So the same amount of money will provide different levels of well-being in different situations. In some cases this amount of money might adequately provide for needs, in others not.

It is clear that one of the main determinants of the needs of a household is its composition. A household with a large number of dependants will need to earn more than a household with no dependants if they are both to enjoy the same standard of living. Dependants may be children, the aged or the chronically ill.

Some studies have gone into great detail in trying to calculate the differences in cost in having children of different ages present in a household and to see how the costs change with different numbers of children (and relatives). These studies give some idea of how to compare the income needs of different types of households.

## Poverty

A person or household whose standard of living falls below some minimum acceptable level can be said to be living in poverty. The 1972 Royal Commission on Social Security had the following comments to make on what determines an acceptable standard of living. They suggested that those in need of assistance should:

*enjoy a standard of living much like the rest of the community and thus be able to feel a sense of participation in and belonging to the community.*

In other words, the Commission defined poverty as *relative* to the standard of living of the rest of the Community. It is of great importance to know how many people are in poverty or how many people do not have the resources that they need in order to participate in our society.

There is no universal measure of poverty. But commonly it is measured as some fraction of the average income of the rest of the community. Social security benefits are also often set this way, so often a standard benefit level is used to define the poverty line.

An alternative is to carry out special surveys of people's degree of participation in everyday activities. One of the most comprehensive surveys of this type done in New Zealand was the survey of the aged in 1974/75. This survey asked about the type of activities those responding had had to put off because they could not afford them. Among the indicators of poverty of those *in the bottom 10%* of the elderly income distribution were:

69% had put up with feeling cold to keep heating costs down.

62% had had to do without, or economise on, visits to friends or relatives.

37% had ill fitting dentures.

29% had to wear old or worn out clothing to go visiting.

28% had done without meat three or more days a week.

27% had let the standard of their accommodation run down.

24% had postponed visits to medical specialists.

In this study and similar ones done around the world a range of activities is taken, some of which are social (e.g. having an evening out), and some of which are more in the category of necessities (e.g. having cooked meals), Then an attempt is made to see how people's ability to participate in these activities changes with the income they have available to them. The concept of poverty is that below a certain income level the number of activities that have to be given up increases rapidly.

In addition to the elderly there are some other groups which are prone to poverty. These groups include solo parents and their children, widows, invalids, the sick and the unemployed. These people are all supported to varying degrees by the benefit system.

Low income families with children are another group affected by poverty. Research by Brian Easton, comparing household income with the social security benefit, found that in 1981/82 9.6% of New Zealanders lived in households whose income for household, adjusting for composition, was below that of the social security benefit for a married couple. He suggested that between 320,000 and 400,000 New Zealanders might be in poverty on this definition. In *Poor New Zealand* published in 1987 two community workers, Charles Waldegrave and Rosemary Coventry, using a higher poverty line and a more liberal definition of deprivation, have suggested that this year there may be a million poor in New Zealand. Others have disputed their figure, however, saying they have not allowed for different household types.

Without being able to follow people's progress over time it is difficult to say how many of those who can be classified as poor are likely to stay in this state. This information would help us know whether there is a group of people that are permanently in poverty or whether poverty is for most a short-lived experience.

# Government Redistribution of Wealth and Income

## Discussion

As seen earlier, the government plays a very big part in redistributing original *market* income. It does this by taxing incomes, by paying monetary benefits to many people, and by providing *in kind* goods and services such as schooling, health, etc., either free or for payments which do not cover full costs.

The label *social welfare,* used in a very broad sense, may be used to describe the effects of these actions of government on income, on opportunities and on general welfare.

There are also two other general ways in which people's welfare can be affected. These are sometimes labelled *occupational welfare* and *fiscal welfare. Occupational welfare* is the provision of welfare as a result of one's occupation or employment. For instance employers or trade unions may provide health insurance, or pension schemes, or other *fringe benefits.* These are sometimes subsidised by the government and sometimes part of their cost is passed on to the consumer. In general, the better off probably benefit most from occupational welfare. *Fiscal welfare* has to do with the way government policies affect the generation of market income: for example protecting New Zealand industries against overseas competition, or subsidising New Zealand exporters, or intervening to control or protect the "monopoly" powers of businesses or trade unions in certain areas. It is often difficult to say who benefits and who loses from these policies. As an example the reduction of protection for the footwear industry reduces both jobs and profits in the industry, but also reduces costs to the shoe-buyer. Also the long-term *efficiency* effects may be quite different from the short-term effects.

In this paper the focus is on *social welfare* and in this section, on who benefits from different types of government expenditure, and who bears the burden of taxation. Again an important question which cannot be ignored is how far taxation affects economic efficiency.

In New Zealand much of the work done to calculate who benefits from government expenditure has been carried out by Suzanne Snively. Similar techniques have been used by the Planning Council in their paper. Graphs from that paper have been used in this section.

## Principles of Taxation

When a tax is being considered there are three basic questions to be answered:

(i) Does the tax hit the right people?

(ii) Are there better ways of achieving the objective of the tax?

(iii) Would a heavy tax involve an unacceptable economic cost outweighing the benefits to be expected from government expenditure of the tax's revenue?

The government also has to consider whether or not a tax can be implemented in a way that is administratively efficient. A tax that costs little to collect, is "certain" in the sense that taxpayers know precisely what they have to pay, and that encourages voluntary compliance, is preferable to one that does not have these features.

In the following discussion we have concentrated mainly on (i) and (iii) for to discuss the alternatives that might be considered under (ii) is beyond the scope of this booklet. Here we discuss the distribution of the tax burden under the current laws and give a brief explanation of two ways in which the current tax base might be changed.

In deciding whether or not the tax hits the right people it is useful to bear the notions of horizontal equity and vertical equity in mind.

## Horizontal equity

This principle is that people similarly placed should pay the same tax amount of tax.

## Vertical equity

This principle is also based on ability to pay tax — but relative to those on other incomes. In one form it is said that the rate of tax should increase as income increases. The argument for this is based on the theory that as your income increases you have to spend a smaller proportion on the necessities of living so that you have a greater ability to pay tax.

The discussion below touches on the question of how much tax people in the different income deciles currently pay, as well as discussing some of the arguments that are raised about wealth taxes and capital gains taxes.

## The Efficiency Cost of Taxes

The third point mentioned above is one that is very hard to evaluate. Every tax has its administrative costs, including the cost to the taxpayer of preparing tax returns. In addition, however, people's choices are affected by the tax they have to pay, for example the choice between work and leisure, and spending or saving. That is, people's behaviour is changed by the tax from what it would otherwise have been. For example they may choose to work less. These changes from pre-tax behaviour are the so-called "efficiency costs" of taxation. Much of the discussion on efficiency centres on the supposed work disincentive effects of levying progressive taxes on income earners.

In fact, many income earners have little immediate choice about the number of hours they work. Some, however, can and will work less, because they consider the tax they face on the extra money they earn is so high that it is not worth their while to earn it. Others will work harder, to get the same after-tax income. But they too have paid a price, not in money income, but in lost leisure. The net effect overall on work incentive is unpredictable.

We have, then, a trade-off between *efficiency* and *equity* or *fairness* in setting income tax scales. The efficiency effects are not easily measured. The question of fairness is not one of measurement but of different opinions about what is a fair tax-scale.

Further discussion of fairness and efficiency can be found in the Commission's discussion booklet *Fairness, Equality and Efficiency.*

## Poverty Traps

An especially important case of the problem of disincentive occurs at the lower end of the income scale. The way that some benefits are cut back or *abated* when a person starts doing some paid work gives little encouragement to return to the work force. This can trap people into remaining dependent on the state.

This effect certainly occurs. It can be debated how important it is, because there are longer-term economic and psychological benefits from re-entering the work-force which most people will also take into account. Still, people are likely to feel aggrieved if they think their efforts are being unduly penalised. If, however, benefits are not phased out fairly quickly with increasing income, the cost to the state can be high.

## Current Situation

Of the currently existing taxes, personal tax is only one of the many taxes.

There are two main types of taxes, *direct* taxes and *indirect* taxes. Direct taxes include taxes such as personal tax and company tax. These taxes are taxes on income. Indirect taxes (GST is an example) are taxes on spending.

Figure 3 shows the expected share of different kinds of tax this year and how the introduction of GST has altered the balance between direct and indirect taxes.

It is difficult to say how much of a company's tax bill ends up being met by the consumer. The tax bill is a cost that tends to be incorporated into a company's price calculation. In some cases it may be passed on in higher prices, so the average buyer in the street contributes to tax in this way. In others the company may seek to reduce costs such as wages. In others there is some reduction in the company's profit, in which case the shareholders may receive a smaller dividend.

In a similar way the cost of those indirect taxes that are levied on sales may be at least partly shifted into prices. To study these problems carefully detailed studies (tax incidence studies) have been carried out. The results of these studies need to be interpreted with some caution but they do give some idea of how the total tax burden affects different groups.

The total effect of personal and indirect taxation is estimated in Figure 4 from the Planning Council. It shows the situation prior to the October 1986 tax changes. It shows that except for those in the top 10 percent of income earners the effective percentage of income paid in tax stays between 32 and 38 percent. Those in the highest bracket pay a higher percentage of their income.

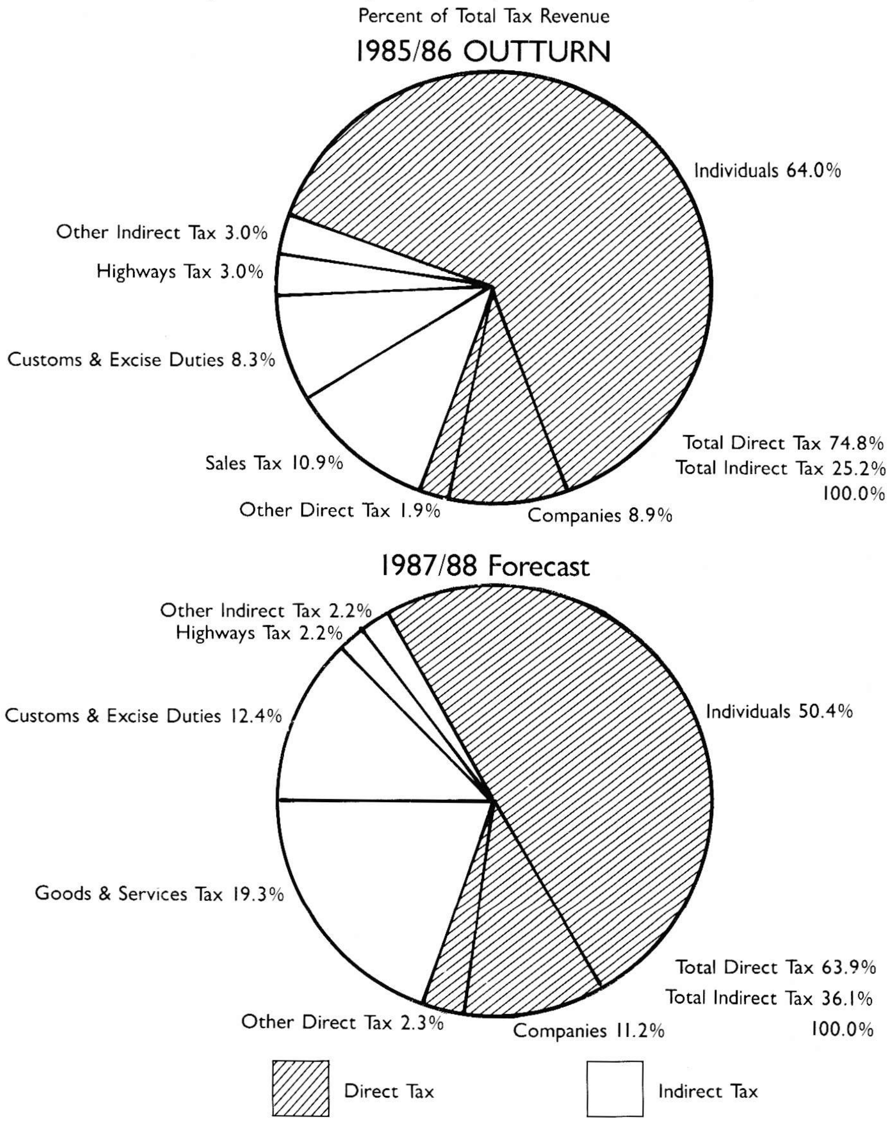
The graph shows that while people in higher income groups pay a higher percentage of their income in personal tax they pay a smaller percentage of their income (even though they may still pay a larger number of dollars) in indirect taxes.

The advantage that the people with a higher income have is that they are able to save more, and the share of their earnings that is saved is not subject to an indirect tax.

## Broadening The Tax Base

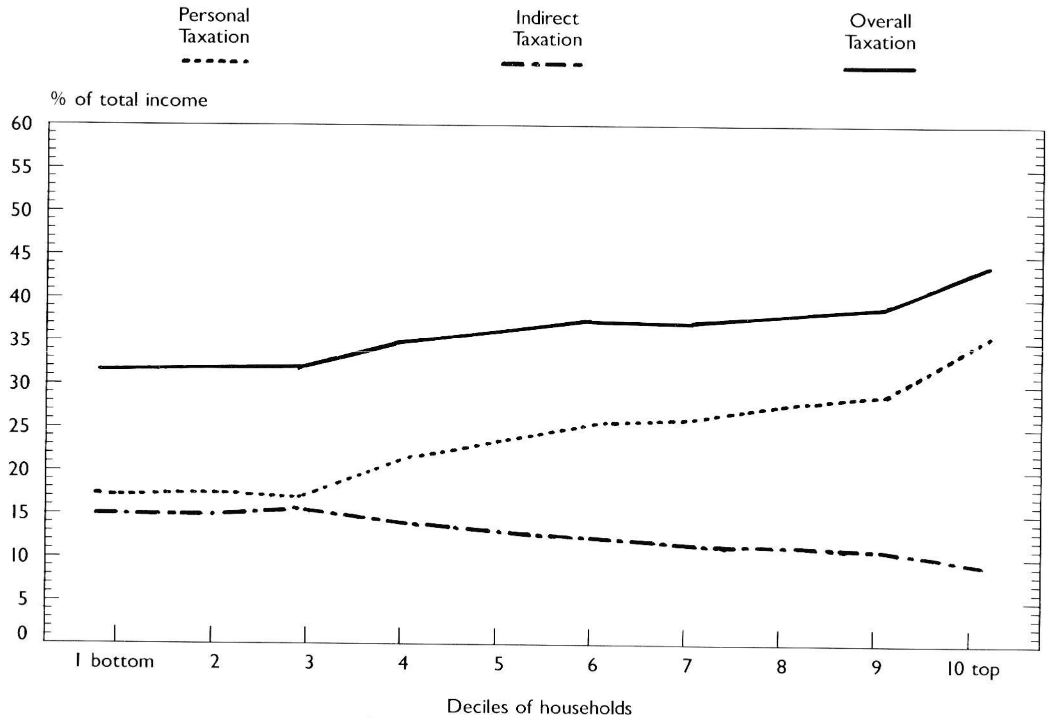
If heavy taxes on, say, income are leading to disincentive problems, one answer is to broaden the tax base. That is, a number of taxes are used rather than relying heavily on just one type of tax. This means lower tax-rates generally than if just one source of revenue is being used. For example the introduction of the tax on goods and services in October 1986 allowed a substantial lowering in income tax rates.

Figure 3: Change in Composition of Tax Receipts




Source: 1987 Budget — Part I

Figure 4: Incidence of Direct and Indirect Taxation as a % of total income




Source: Derived from the HEIS, 1985/86

This leads to the question of whether there are other areas not within the present tax-base, or which are at present lightly taxed, which could be brought more into the tax-base. Extra tax revenue could be used for extra government spending on social policy or other objectives, or else in reducing taxes elsewhere. Usually there are administrative and political problems in extending the tax-base, but this does not mean they should not be considered. Some possibilities follow:

Capital Gains Tax

A capital gain occurs when the value of an asset increases. If the value increases faster than the rate of inflation then it is a real capital gain. For most people the best example of a capital gain is the increase in house values. Other examples of capital gains (or losses) are seen in changes in the price of shares on the stockmarket.

Economists tend to classify capital gains as income, because they add to the potential spending power of the owner of the asset.

New Zealand, unusually amongst developed countries, has no capital gains tax. (There are some minor exceptions to this statement, for instance in relation to certain land transactions.)

The *fairness* argument for a capital gains tax is that as capital gains are a type of income they should be taxed like other forms of income. There is also an *efficiency* argument for a capital gains tax. This is that income, including capital gains, from investment in all assets should be treated equally. That is, gains from investing in property or shares should be taxed on a similar basis as income of, say, a manufacturer's investment in a factory or a machine. Otherwise investment funds will not be put to their most profitable use, from society's viewpoint.

There are arguments, too, against capital gains taxes. A capital gains tax is rather messy and more costly than other taxes to administer. Also, if the tax is payable only when the asset is sold, this can have the consequence of "locking in" investment, discouraging the release of funds for more profitable use.

There are a number of questions then about a capital gains tax. Should such a tax apply in New Zealand? If the answer is yes, what exemptions should there be? (Homes are exempt in some countries.) Should the tax be payable on gains as they occur or only on sale of the asset? Should capital losses be deductible or only against capital gains? Should capital gains be taxed at income tax rates or lesser rates? Should an inflation allowance be made when assessing the gain for tax purposes?

### Taxing Wealth

A tax on wealth is a tax on the value of an asset at a given date, as against an income tax on the income from the asset, or a capital gains tax on the increase in its value. The tax can be annual or on transfer, that is either on the death of the owner or when she or he gives the assets to another person.

New Zealand, like many other countries, has a wealth tax, in the form of death duties. Local authority rates can also be regarded as a wealth tax. So too can land tax. The share of tax revenues provided by wealth taxes has steadily declined, as in many other countries, and is now less than 1 percent of the total.

The fairness argument for taxing wealth is that wealth gives the owner advantages in terms of security, independence and opportunity that those not possessing wealth do not have. Another argument, important in New Zealand late last century, is that taxing wealth prevents accumulation of wealth and economic power in a few hands, an unhealthy development in a democratic society. There is also an economic efficiency argument, that a wealth tax forces people to make productive use of their assets.

Against these are the arguments that wealth taxes have some of the same administrative problems as capital gains taxes, and are often easily avoided. Also they are generally becoming of small importance and have been abolished in some countries. For example, Canada and Australia have no death duties and no annual wealth taxes. This raises the risk that if New Zealand increases wealth taxes, owners of wealth might choose to move elsewhere.

## Transfer Payments, and Provided Goods and Services

From the question of who bears the tax burden, we turn to that of who benefits from the way government money is spent. This spending may be in the form of benefits and pensions (transfer payments) or as government provided goods and services. Before examining each it is worth commenting on the overall level of government spending, and whether it links to the overall performance of an economy.

It turns out that the relationship is not at all clear. Internationally there are countries that maintain a high level of government spending and whose economies perform well, as in Scandinavia. There are others with low government spending, which also perform well, notably Japan.

## Transfer Payments

When considering who gains from payments it is important to bear in mind that different benefits are aimed at different categories of people. Figure 5 from the Planning Council paper shows the percentage share of benefits received by deciles of households.

This shows that the poorest 40 percent of households obtained three-quarters of all Social Welfare benefits. The top 50 percent of households received 20 percent of social welfare payments (about $1,000 million in 1985/86).

The expenditure on National Superannuation is the most significant benefit at all levels of income. This reflects the fact that it is the largest single item in the government's spending on benefits.

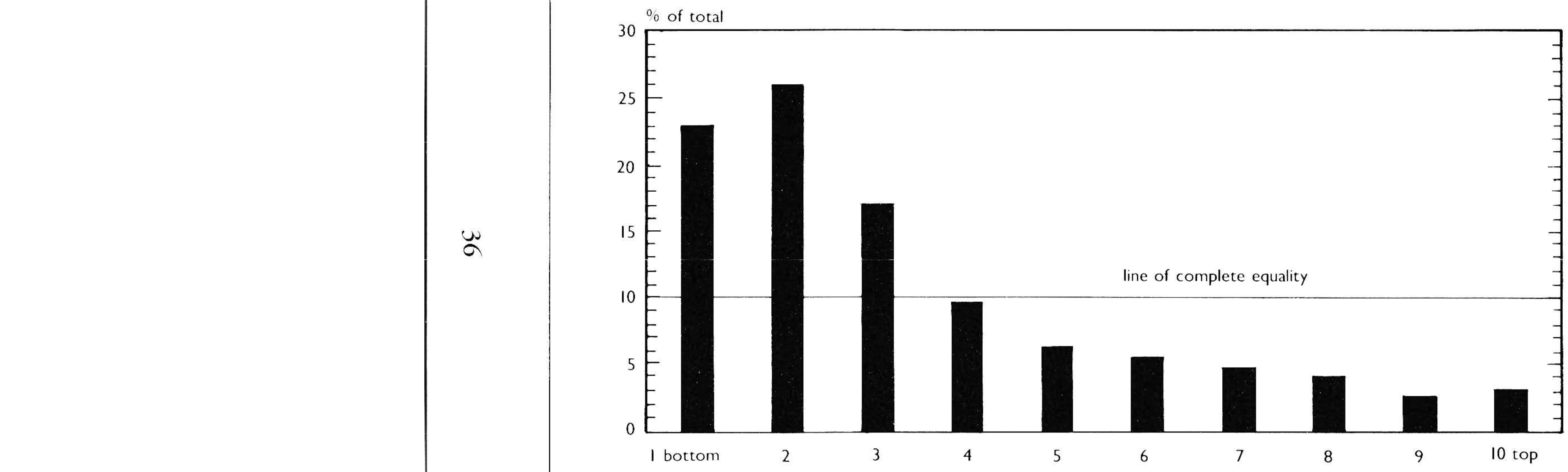
Family Benefit is an example of a universal benefit that is given to families with children regardless of their income. The payments made for Family Benefit are distributed fairly evenly across all income groups.

It is worth explaining here, however, that government spending on the social welfare system should be considered in conjunction with taxes. An amount of money may be given to a family either by means of a cash benefit or by an appropriate tax exemption or rebate. This point is important to bear in mind because it means that in measuring any change in the amount that government spends on social services, we should also see how the rebates and exemptions offered under the tax system are changing.

## Goods and Services

Government provided goods and services take many forms. Education, health and housing are all obvious examples. However, the government also spends money on defence, on roads, and on many other items. Everyone is a beneficiary of government spending in some way or another, and while the total amount derived by any one person may be hard to calculate, it could be well in excess of the amounts that are paid as benefits to people usually thought of as dependent on the government. In cases where companies use public facilities, they too can be regarded as beneficiaries of government spending.

Figure 5: Distribution of Social Welfare Benefits
% share of benefit income received by deciles of households




deciles of households
Source: Household Expenditure and Income Survey 1985/86

This type of spending is particularly important in discussing equality of opportunity and raising standards of living. Many people establish a good level of income for themselves by taking advantage of these *life-enhancing* services, rather than the *emergency* measures such as benefits.

For some of these goods and services, it is possible in theory to see which income deciles the people using them are in. In other cases it is more difficult.

The best information on this subject is contained in Suzanne Snively's paper *The 1981/82 Government Budget and Household Income Distribution.* The results have some limitations, discussed in the paper. However, Snively states that the overall picture which emerges is that:

> *"total central government non-market expenditure shares are distributed in a U-shaped pattern, with household income deciles at the top and bottom ends estimated to receive the larger shares".*

She suggests that this occurs because lower income groups receive more from benefit payments while people in the higher market income groups consume a greater amount of education.

It may be difficult to decide how much the availability of a service such as education or health care is worth to a person. Someone who has found their education relatively useless or culturally inappropriate would not agree that the amount spent on their education has given value for money. On the other hand a person's education may have enabled that person to enjoy a substantial income. The point is that the relationship between the use of a service and its value to the person using it has to be assumed.

A discussion of whether social policy is best implemented by tax changes, by transfer payments, by public provision of goods and services for free, or for a fee or by encouraging private provision, is beyond the scope of this paper.

Some of the issues that are relevant to considering these alternatives are outlined in the Commission's discussion booklet *Public, Private and Voluntary Provision of Social Services in New Zealand.*

# Issues

These are some of the issues the Royal Commission would like you to think about, and on which submissions would be particularly welcome.

## Information

We have noted that there is much inequality in the income and wealth outcomes produced by the market. This is somewhat reduced by the government's tax, transfer, and other policies. Much information is available on the extent of inequality, but there are gaps, and the missing data may be costly to collect.

How far should the government go in collecting statistics on the extent of inequality and information on what causes it?

## Fairness

The standards of a fair society that the Commission has been asked to take into account require it to examine how wealth and income are spread throughout the population. Guidelines are needed to help suggest whether a certain amount of inequality is fair or not.

What would you suggest for such guidelines?

For instance the Commission is asked to have regard to *the responsibility which all people have to be independent and self-reliant to the best of their ability and to contribute to society.*

Too much redistribution by government may reduce the incentive to become independent and self-reliant.

What is the right balance?

What can be considered as *justifiable* inequality, providing rewards for hard work, developing one's skills, taking responsibility and bearing risk?

## Genuine Opportunity

The Commission is required to have regard to the following standard of a fair society: *genuine opportunity for all people, of whatever age, race, gender, social and economic position or abilities to develop their own potential.*

The Commission sees opportunity as a very important component of fairness. It believes some groups in society do experience barriers to genuine opportunity.

Do you know of such barriers? How do you think they can be eliminated?

In thinking about making a submission to the Commission you may like to reflect on people you know about and decide if any of them have experienced difficulties that you thought were unfair in developing their potential. Opportunites that enable people to have the satisfaction of raising their own standard of living are particularly important to the Commission.

You may identify why you think these barriers were unfair and what steps could be taken to redress them.

The government provides many services, for instance in education and training, health, housing and other areas which help reduce barriers to equal opportunity.

The government sometimes charges for such services, to discourage waste and because some of their benefits go to groups who already have more than adequate resources.

There are problems with targeting *user-pays* so that equality of opportunity is not denied, but the services themselves do not become too costly.

What do you think is the right balance? Do you have suggestions on solutions?

## Standard of Living

Given that we have observed inequality of incomes and that we have accepted the need to guarantee New Zealanders a certain standard of living, then it becomes necessary for the government to re-distribute income.

What standard of living should be guaranteed to New Zealanders? The policies of successive governments suggest that New Zealanders are prepared to pay taxes to ensure that the needy are given assistance.

How should society go about making sure that those on low incomes are able to play a full part in society?

Does the answer vary with the cause of low income, for instance whether one is unemployed, or on low wages, or supporting dependants, or disabled, or aged?

## Government Redistribution of Income and Wealth

It would be generally agreed that the government has some part to play in redistributing income and wealth to give a more fair outcome. Its instruments are taxes, transfers and also the provision of services such as education.

Taxes and benefits transfer resources among the population. Many people are both taxed and receive benefits, so it is the net outcome that matters.

There is a very wide range of possibilities open to the government.

As two examples of these, the government could have a progressive tax structure, taxing well-off people heavily and poor people lightly or not at all, with relatively moderate benefit payments targeted to those not well-off. Or it could tax everybody more or less proportionately, but then make larger transfers of income through benefits. If the overall tax-rate were high these benefits could have a strong universal element. If low they would need to be targeted more to the poor.

Which of the possible tax and benefit structures do you think would be the best? (There are many alternative combinations.)

## Targeted Benefits versus Universal Benefits

It is often argued that benefits should be targeted to ensure that proper provision is made for the poor. Under this argument family support, a targeted benefit, would be better than family benefit, a universal benefit, because a given sum of money goes only to those who need it, and is not spread among all.

On the other hand, there is some suggestion from other countries that people in general more readily accept taxation to provide general benefits, and that targeting does not necessarily result in more money being provided to the less well-off. Also targeted benefits are phased out with increasing income. This can be a disincentive to return to work for those receiving targeted benefits.

What do you think is the right balance between targeted and universal benefits — in relation to family support, support of the elderly, the unemployed, the sick, the disabled, those caring for dependants, and so on?

Are there ways of overcoming the work disincentive effects of benefits which phase out as income increases?

## The Efficiency Effects of Taxation

Taxing people alters their behaviour, and if taxes are high, causes economic inefficiences which could conceivably leave everybody worse off in the long run.

For example a highly progressive tax-rate could discourage effort and enterprise. Ultimately people will not support a tax system if too many people feel that they are being asked to pay an unfair amount.

Just how important these effects are is not easy to assess. From your experience, how important do you think they are?

## Broadening the Tax-Base

One way of reducing existing tax-rates, or of providing more revenue to meet government spending, is to widen the tax-base. That is, taxes are extended to economic activity not presently taxed.

This can also lead to greater fairness in spreading the tax burden.

This paper has discussed some options, for instance taxing capital gains, or increasing wealth taxes.

Should changes be made to the tax-base? For instance taxing capital gains?

If yes, should the resulting revenue be used to reduce tax-rates elsewhere, or to help in achieving the government's social policy objectives?

## Status and Influence

Money income is not the only factor in the fair distribution of resources. Access to information and access to influence are also important.

Do you feel you are able to influence decision-making in your community?

Can you get the information you need about the different sorts of resources and opportunities that might be available to your group?

A very important instance is the status and influence of persons within the family or household or other closely connected group. Many women feel strongly that they are at a disadvantage because they usually become the *carer* within the family. They become dependent for income on another and even if that person is well-meaning this can lead to a lessening of self-respect and a feeling of powerlessness.

There is a strong feeling in some quarters that this situation needs some redressing. There are strong emotions too in other quarters about the government intervening in family affairs.

What do you think? What role should the government play?

# Conclusion

There are clearly many questions to be answered in deciding what is a fair distribution of resources within our community. Even more questions arise when we consider what government should do. The solutions can be complex, requiring a large number of factors to be balanced.

Part of the Royal Commission's task is to ascertain the opinions of people in general, and make recommendations that desirably arise out of community consensus. Readers of this booklet are invited to help in that task.

# References

In preparing this booklet material has been drawn from the following sources:


EASTON B.H. *Income Distribution in New Zealand.* NZIER, 1983.

HYMAN P.J.
CLARK A. *Equal Pay Study: Phase One Report.* Department of Labour, 1987.

NEW ZEALAND PLANNING COUNCIL INCOME DISTRIBUTION GROUP
Background information for conference on *The Distribution of Income and Wealth. 1987*

SNIVELY S. *The 1981/82 Government Budget and Household Income Distribution.* New Zealand Planning Council, 1987.

Published by the Royal Commission on Social Policy,